

# Malaysia Banking

# POSITIVE

[Unchanged]

## 1Q22 results round-up

### There is upside potential to forecasts

The narrative is unchanged following the 1Q22 results season: a subdued 2022, but with a positive outlook into 2023. There is upside potential to our forecasts from a) margin expansion if the OPR continues to rise and b) lower credit costs as pre-emptive provisions are written back. Moreover, dividend yields are decent. POSITIVE maintained on the sector, with BUYs on HLBK, RHB, AMMB, ABMB and HLFG.

### 2022 has its challenges

Common themes across banks this results season include interest margin pressure, lower NOII and negative JAWS which impacted cumulative core operating profit (-5% YoY). However, with lower credit costs, 1Q22 cumulative core pretax profit rose 8% YoY, only to be offset by Cukai Makmur, leading to no change in net profit. We forecast subdued operating profit/net profit growth of just 2%/1% in 2022. There are, however, two areas from which earnings could surprise positively: a) better NIMs, for we have imputed just one rate hike this year (our Economics Team expects another rate hike in 2H22), and b) lower credit costs, as loans continue to roll off Repayment Assistance.

### More positive outlook into 2023

On expectations of better margins and stable NOII into 2023, we expect cumulative operating profit to expand 6% YoY, while cumulative net profit is projected to rebound 18% YoY in the absence of Cukai Makmur, as credit costs continue to taper off. Yet again, we have not factored in any rate hike into 2023 (our Economics Team expects a 75bp hike in 2023), while the potential writeback in pre-emptive provisions provides room for positive earnings surprise. We expect ROAE to bounce back to 10.5% in 2023 (from 9.4% in 2022E; 9.6% in 2021).

### Maintaining elevated credit cost assumptions

Loans under Repayment Assistance (RA) for our banks have dropped from MYR440b in Oct/Nov 2021 (25% of total loans) to MYR142b (8% of total) in Apr 2022. Hypothetically assuming a default rate of 20% and a loss given default (LGD) rate of 30%, current pre-emptive provision levels appear sufficient to cover 102% to 391% (Fig 37) of potential defaults. We have conservatively kept our credit cost assumptions elevated at 37/34bps in 2022/23E, against a pre-COVID average of 28bps from FY17-FY19 (Fig 40).

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#### Banking Sector - Peer Valuation Summary

| Stock       | Rec  | Shr px<br>(MYR) | Mkt cap<br>(MYR m) | TP<br>(MYR) | PER (x)<br>CY 22E | PER (x)<br>CY 23E | P/B (x)<br>CY 22E | P/B (x)<br>CY 23E | ROAE (%)<br>CY 22E | ROAE (%)<br>CY 23E | Net yield<br>CY 22E | Net yield<br>CY 23E |
|-------------|------|-----------------|--------------------|-------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|---------------------|---------------------|
| Maybank *   | NR   | 8.93            | 107,012            | NR          | 13.7              | 11.8              | 1.2               | 1.2               | 8.9                | 10.2               | 6.3                 | 7.3                 |
| Public Bank | HOLD | 4.61            | 89,677             | 4.80        | 16.2              | 13.4              | 1.8               | 1.7               | 11.2               | 12.7               | 3.3                 | 3.9                 |
| CIMB        | HOLD | 5.15            | 54,571             | 5.70        | 9.8               | 8.2               | 0.9               | 0.9               | 8.7                | 9.8                | 4.9                 | 5.6                 |
| HL Bank     | BUY  | 21.10           | 45,739             | 24.70       | 12.6              | 11.4              | 1.3               | 1.2               | 10.8               | 11.2               | 3.0                 | 3.3                 |
| RHB Bank    | BUY  | 5.97            | 25,023             | 7.10        | 10.1              | 8.5               | 0.8               | 0.8               | 8.6                | 9.8                | 5.0                 | 5.9                 |
| HLFG        | BUY  | 19.90           | 22,950             | 22.10       | 9.1               | 8.6               | 0.9               | 0.8               | 10.2               | 10.0               | 2.9                 | 3.1                 |
| AMMB        | BUY  | 3.76            | 12,395             | 4.37        | 8.5               | 7.8               | 0.6               | 0.6               | 8.4                | 8.0                | 3.1                 | 3.9                 |
| BIMB        | HOLD | 2.92            | 6,272              | 3.00        | 13.3              | 11.0              | 0.9               | 0.9               | 7.2                | 8.3                | 3.3                 | 3.9                 |
| ABMB        | BUY  | 3.55            | 5,573              | 4.30        | 8.8               | 7.9               | 0.8               | 0.8               | 9.5                | 9.9                | 5.7                 | 6.3                 |
| Simple avg  |      |                 | 369,212            |             | 11.3              | 9.9               | 1.0               | 1.0               | 9.3                | 10.0               | 4.1                 | 4.8                 |
| MC-wtd      |      |                 |                    |             | 12.8              | 11.0              | 1.2               | 1.2               | 9.7                | 10.7               | 4.5                 | 5.2                 |

\* Consensus estimates Source: Maybank IBG Research

## Loans under RA now 8% of total loans

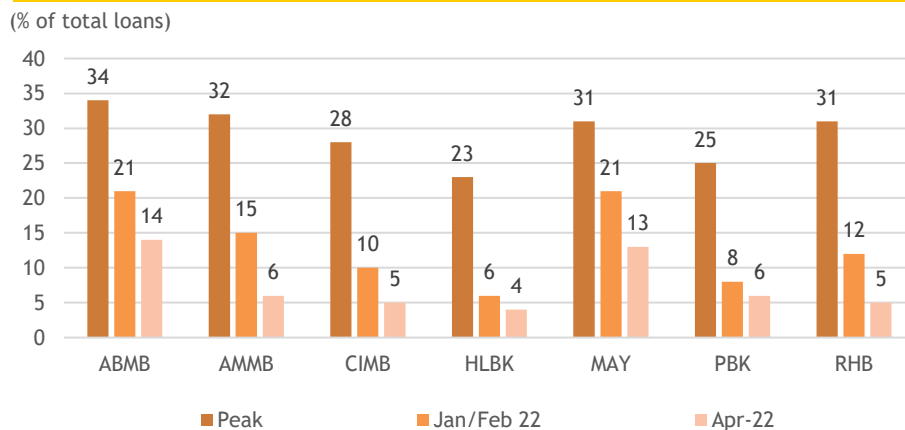
To recap, in June 2021, the Government announced a second blanket moratorium for six months starting 7<sup>th</sup> July. The difference between this moratorium and the first one from Apr-Sep 2020 was that 1) it was on an opt-in basis, and 2) interested borrowers were required to sign revised terms to the loan agreement.

Total loans under Repayment Assistance (RA) for the banks in our coverage jumped to 25% of total loans in Oct/Nov 2021 from 14% end-Dec 2020, or MYR440b in absolute terms. In Dec 2021, the Finance Minister announced that the take-up rate had totaled MYR453b for the entire banking industry, encompassing 2.6m borrowers.

The application deadline for this PEMULIH programme was end-Dec 2021 and a sizeable number of borrowers have normalized loan repayments since then. The percentage of RA loans has since declined to about MYR142b for the banks in our coverage, averaging about 8% of total loans.

Application for the URUS programme closed end-Mar 2022, but take-up rates have been very low, given the more stringent requirements of having to prove unemployment/salary cuts, tagging on the Central Credit Reference Information System (CCRIS) for affected borrowers as well as the need to undergo financial counselling with the Credit Counselling and Debt Management Agency (AKPK).

**Fig 1: Percentage loans under RA by bank (Oct/Nov 2021 vs Jan/Feb 2022)**



Source: Banks

## Lower credit costs offset by Cukai Makmur

The recent results season was encouraging. Of the banks in our coverage, AMMB, CIMB and HLF's results were above expectations. AMMB's results came in stronger-than-expected due to the writeback of preemptive provisions, while CIMB's earnings surprised due to better-than-expected NIMs and lower-than-expected provisions. HLF's results surprised positively due to a lower-than-expected tax rate. The only negative surprise came from BIMB, due to lower investment income and NIM compression during the quarter.

The earnings table below strips out exceptional gains/losses and net modification gains/losses across the banks, which we deem to be one-off in nature.

1Q22 cumulative core operating profit declined 5% YoY, predominantly on lower non-interest income (-20% YoY), led by marked-to-market (MTM) losses on financial assets and lower stockbroking/asset management fees. However, with loan loss allowances declining 65% YoY, cumulative core pretax profit expanded 8% YoY. The Prosperity Tax (Cukai Makmur) led to a higher effective rate of 28% in 1Q22 versus 23% in 1Q21 and as a result, cumulative net profit was flat YoY.

**Fig 2: Cumulative core earnings for seven banks (stripping out large exceptionals)**

| Year end: Dec (MYR'm)      | Quarterly     |               |            |               |           | Cumulative    |               |            |
|----------------------------|---------------|---------------|------------|---------------|-----------|---------------|---------------|------------|
|                            | 1Q22          | 1Q21          | YoY chg    | 4Q21          | QoQ chg   | 3M22          | 3M21          | YoY chg    |
| Interest income            | 16,336        | 16,092        | 2          | 16,133        | 1         | 16,336        | 16,092        | 2          |
| Interest expense           | (5,406)       | (5,725)       | (6)        | (5,496)       | (2)       | (5,406)       | (5,725)       | (6)        |
| <b>Net interest income</b> | <b>10,930</b> | <b>10,367</b> | <b>5</b>   | <b>10,637</b> | <b>3</b>  | <b>10,930</b> | <b>10,367</b> | <b>5</b>   |
| Islamic banking income     | 4,125         | 4,271         | (3)        | 4,386         | (6)       | 4,125         | 4,271         | (3)        |
| Non-interest income        | 4,099         | 5,095         | (20)       | 3,757         | 9         | 4,099         | 5,095         | (20)       |
| <b>Operating income</b>    | <b>19,155</b> | <b>19,733</b> | <b>(3)</b> | <b>18,780</b> | <b>2</b>  | <b>19,155</b> | <b>19,733</b> | <b>(3)</b> |
| Operating expenses         | (8,356)       | (8,322)       | 0          | (8,370)       | (0)       | (8,356)       | (8,322)       | 0          |
| <b>Operating profit</b>    | <b>10,799</b> | <b>11,412</b> | <b>(5)</b> | <b>10,410</b> | <b>4</b>  | <b>10,799</b> | <b>11,412</b> | <b>(5)</b> |
| Loan loss allowance        | (865)         | (2,442)       | (65)       | (1,587)       | (45)      | (865)         | (2,442)       | (65)       |
| Other provisions           | (589)         | (253)         | 132        | (987)         | (40)      | (589)         | (253)         | 132        |
| Associate contributions    | 323           | 260           | 24         | 299           | 8         | 323           | 260           | 24         |
| <b>Pretax profit</b>       | <b>9,668</b>  | <b>8,977</b>  | <b>8</b>   | <b>8,135</b>  | <b>19</b> | <b>9,668</b>  | <b>8,977</b>  | <b>8</b>   |
| Taxation                   | (2,749)       | (2,053)       | 34         | (2,004)       | 37        | (2,749)       | (2,053)       | 34         |
| Minority interest          | (124)         | (96)          | 28         | (124)         | (1)       | (124)         | (96)          | 28         |
| <b>Net profit</b>          | <b>6,795</b>  | <b>6,828</b>  | <b>(0)</b> | <b>6,008</b>  | <b>13</b> | <b>6,795</b>  | <b>6,828</b>  | <b>(0)</b> |
| Recurring net profit       | 6,795         | 6,828         | (0)        | 6,008         | 13        | 6,795         | 6,828         | (0)        |

Sources: Banks, Maybank IBG Research

The table above sums up earnings for seven banks: ABMB, AMMB, CIMB, HL Bank, Maybank, Public Bank and RHB Bank.

## AMMB and ABMB outperform in the quarter

The table below breaks down the earnings performance of each bank, having stripped out one-off gains/losses (including mod losses/gains) during the period and from comparative quarters.

1Q22 core operating income was lower across the board, due mainly to lower NOII. Coupled with higher operating expenses, operating profit for our banks contracted by about 5% YoY on a cumulative basis. ABMB outperformed with a 9% YoY growth in operating profit, as it was least impacted by MTM investment losses and as its operating expenses continued to contract (-6% YoY).

At the core pretax profit level, AMMB's pretax profit jumped 286% due mainly to the write-back of preemptive provisions during the quarter, while ABMB's earnings were bolstered by the growth in operating profit as well as lower provisions as well. Maybank underperformed during the quarter with a 15% YOY decline in core net profit.

**Fig 3: Cumulative calendarised CORE earnings for the seven banks (stripping out large exceptionals)**

| Year end: Dec (MYR'm)     | Quarterly     |               |             |               |            | Cumulative    |               |             |
|---------------------------|---------------|---------------|-------------|---------------|------------|---------------|---------------|-------------|
|                           | 1Q22          | 1Q21          | YoY chg     | 4Q21          | QoQ chg    | 3M22          | 3M21          | YoY chg     |
| <b>Operating income</b>   |               |               |             |               |            |               |               |             |
| Maybank                   | 6,454         | 6,825         | (5%)        | 6,300         | 2%         | 6,454         | 6,825         | -5%         |
| CIMB                      | 4,736         | 4,801         | (1%)        | 4,490         | 5%         | 4,736         | 4,801         | -1%         |
| Public Bk                 | 3,147         | 3,227         | (2%)        | 3,053         | 3%         | 3,147         | 3,227         | -2%         |
| AMMB                      | 1,114         | 1,122         | (1%)        | 1,132         | (2%)       | 1,114         | 1,122         | -1%         |
| HL Bank                   | 1,348         | 1,386         | (3%)        | 1,371         | (2%)       | 1,348         | 1,386         | -3%         |
| RHB                       | 1,903         | 1,926         | (1%)        | 1,954         | (3%)       | 1,903         | 1,926         | -1%         |
| ABMB                      | 452           | 446           | 1%          | 480           | (6%)       | 452           | 446           | 1%          |
|                           | <b>19,155</b> | <b>19,733</b> | <b>(3%)</b> | <b>18,780</b> | <b>2%</b>  | <b>19,155</b> | <b>19,733</b> | <b>-3%</b>  |
| <b>Operating profit</b>   |               |               |             |               |            |               |               |             |
| Maybank                   | 3,520         | 4,003         | (12%)       | 3,345         | 5%         | 3,520         | 4,003         | (12%)       |
| CIMB                      | 2,512         | 2,463         | 2%          | 2,202         | 14%        | 2,512         | 2,463         | 2%          |
| Public Bk                 | 2,104         | 2,199         | (4%)        | 2,092         | 1%         | 2,104         | 2,199         | (4%)        |
| AMMB                      | 557           | 619           | (10%)       | 603           | (8%)       | 557           | 619           | (10%)       |
| HL Bank                   | 830           | 873           | (5%)        | 858           | (3%)       | 830           | 873           | (5%)        |
| RHB                       | 1,044         | 1,041         | 0%          | 1,044         | (0%)       | 1,044         | 1,041         | 0%          |
| ABMB                      | 232           | 214           | 9%          | 265           | (12%)      | 232           | 214           | 9%          |
|                           | <b>10,799</b> | <b>11,412</b> | <b>(5%)</b> | <b>10,410</b> | <b>4%</b>  | <b>10,799</b> | <b>11,412</b> | <b>(5%)</b> |
| <b>Core pretax profit</b> |               |               |             |               |            |               |               |             |
| Maybank                   | 2,972         | 3,172         | (6%)        | 2,720         | 9%         | 2,972         | 3,172         | (6%)        |
| CIMB                      | 2,101         | 1,788         | 17%         | 1,055         | 99%        | 2,101         | 1,788         | 17%         |
| Public Bk                 | 2,000         | 1,999         | 0%          | 1,806         | 11%        | 2,000         | 1,999         | 0%          |
| AMMB                      | 514           | 133           | 286%        | 269           | 91%        | 514           | 133           | 286%        |
| HL Bank                   | 1,031         | 941           | 10%         | 1,077         | (4%)       | 1,031         | 941           | 10%         |
| RHB                       | 891           | 867           | 3%          | 958           | (7%)       | 891           | 867           | 3%          |
| ABMB                      | 159           | 77            | 105%        | 250           | (37%)      | 159           | 77            | 105%        |
|                           | <b>9,668</b>  | <b>8,977</b>  | <b>8%</b>   | <b>8,135</b>  | <b>19%</b> | <b>9,668</b>  | <b>8,977</b>  | <b>8%</b>   |
| <b>Core net profit</b>    |               |               |             |               |            |               |               |             |
| Maybank                   | 2,045         | 2,392         | (15%)       | 2,057         | (1%)       | 2,045         | 2,392         | (15%)       |
| CIMB                      | 1,472         | 1,336         | 10%         | 811           | 82%        | 1,472         | 1,336         | 10%         |
| Public Bk                 | 1,399         | 1,530         | (9%)        | 1,381         | 1%         | 1,399         | 1,530         | (9%)        |
| AMMB                      | 392           | 95            | 312%        | 211           | 86%        | 392           | 95            | 312%        |
| HL Bank                   | 785           | 771           | 2%          | 739           | 6%         | 785           | 771           | 2%          |
| RHB                       | 600           | 653           | (8%)        | 658           | (9%)       | 600           | 653           | (8%)        |
| ABMB                      | 103           | 50            | 106%        | 151           | (32%)      | 103           | 50            | 106%        |
|                           | <b>6,795</b>  | <b>6,828</b>  | <b>(0%)</b> | <b>6,008</b>  | <b>13%</b> | <b>6,795</b>  | <b>6,828</b>  | <b>(0%)</b> |

Sources: Banks, Maybank IBG Research

## Domestic loan growth picked up in 1Q22

Cumulative domestic gross loans for the banks in our coverage picked up momentum in 1Q22, rising 4.7% YoY. This was in line with the overall industry loan growth of 4.6% YoY in March 2022. Total gross loans (domestic and overseas) increased at a faster pace of 5.1% YoY.

Maybank's loan book in Malaysia and Singapore expanded 4.9% and 7.2% respectively end-Mar 2022, mitigating a 2% contraction in the Indonesian loan book. Group loans rose 5.2% YoY.

Excluding any forex impact, CIMB's loan book expanded 5.0%, 5.3% and 8.3% in Malaysia, Indonesia and Singapore respectively, offsetting a loan contraction of 1.8% in Thailand, where it had scaled back its commercial banking operations. Group loans expanded 5.0% YoY.

**Fig 4: Total loans - YoY growth**

|              | 4Q20        | 1Q21        | 2Q21        | 3Q21        | 4Q21        | 1Q22        |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Maybank      | 0.0%        | 3.1%        | 4.1%        | 4.0%        | 5.7%        | 5.2%        |
| CIMB         | (0.3%)      | 0.4%        | (0.2%)      | 1.6%        | 3.3%        | 5.0%        |
| Public       | 4.6%        | 5.1%        | 5.2%        | 3.3%        | 3.6%        | 3.7%        |
| AMMB         | 7.0%        | 7.0%        | 7.6%        | 4.5%        | 6.6%        | 4.6%        |
| HL Bank      | 6.2%        | 7.3%        | 6.8%        | 5.2%        | 6.7%        | 6.3%        |
| RHB          | 5.6%        | 6.8%        | 5.7%        | 6.7%        | 6.7%        | 7.0%        |
| ABMB         | (0.8%)      | 1.1%        | (0.5%)      | 0.2%        | 3.0%        | 4.6%        |
| <b>Total</b> | <b>2.2%</b> | <b>3.9%</b> | <b>3.9%</b> | <b>3.7%</b> | <b>5.0%</b> | <b>5.1%</b> |

Source: Banks

**Fig 5: Domestic loans - YoY growth**

|              | 4Q20        | 1Q21        | 2Q21        | 3Q21        | 4Q21        | 1Q22        |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Maybank      | 4.0%        | 4.9%        | 4.7%        | 2.2%        | 4.1%        | 4.9%        |
| CIMB         | 2.9%        | 3.5%        | 3.8%        | 2.5%        | 2.9%        | 5.0%        |
| Public       | 5.4%        | 6.1%        | 5.9%        | 3.3%        | 3.4%        | 3.7%        |
| AMMB         | 7.0%        | 7.0%        | 7.6%        | 4.5%        | 6.6%        | 4.6%        |
| HL Bank      | 6.4%        | 7.4%        | 6.2%        | 4.5%        | 6.0%        | 5.0%        |
| RHB          | 4.4%        | 6.0%        | 4.1%        | 4.4%        | 5.2%        | 5.8%        |
| ABMB         | (0.8%)      | 1.1%        | (0.5%)      | 0.2%        | 3.0%        | 4.6%        |
| <b>Total</b> | <b>4.5%</b> | <b>5.4%</b> | <b>5.0%</b> | <b>3.2%</b> | <b>4.2%</b> | <b>4.7%</b> |

Source: Banks

## CASA growth moderates

Customer deposits growth moderated further to 5.1% YoY in 1Q22, while CASA growth slowed to 8.8% YoY end-Mar 2022 from 12.8% YoY end-Dec 2021. Nevertheless, as CASA growth continued to outpace fixed deposit growth, the average CASA ratio for our banks improved further to 38% end-Mar 2022 from 37.8% end-2021. However, on an individual bank basis, CASA ratios were generally lower QoQ for Maybank, RHB and ABMB.

**Fig 6: Customer deposits YoY growth**

|                | 4Q20        | 1Q21        | 2Q21        | 3Q21        | 4Q21        | 1Q22        |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Maybank        | 2.6%        | 10.3%       | 5.5%        | 2.8%        | 5.9%        | 5.5%        |
| CIMB           | 2.5%        | 3.5%        | 0.2%        | 5.2%        | 5.9%        | 6.4%        |
| Public Bk      | 3.5%        | 3.8%        | 4.2%        | 4.2%        | 3.2%        | 4.4%        |
| AMMB           | 12.6%       | 6.6%        | (0.2%)      | 0.7%        | 3.9%        | 1.9%        |
| HL Bank        | 5.5%        | 7.6%        | 6.1%        | 5.3%        | 7.0%        | 6.3%        |
| RHB            | 6.8%        | 12.4%       | 8.1%        | 9.0%        | 8.1%        | 4.4%        |
| ABMB           | (1.2%)      | 0.1%        | (4.7%)      | (4.9%)      | 1.1%        | (0.6%)      |
| <b>Average</b> | <b>4.0%</b> | <b>7.0%</b> | <b>3.8%</b> | <b>4.1%</b> | <b>5.5%</b> | <b>5.1%</b> |

Source: Banks

**Fig 7: CASA YoY growth**

|                | 4Q20         | 1Q21         | 2Q21         | 3Q21         | 4Q21         | 1Q22        |
|----------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Maybank        | 22.6%        | 29.2%        | 18.7%        | 12.0%        | 16.3%        | 9.1%        |
| CIMB           | 22.6%        | 19.8%        | 8.7%         | 9.6%         | 10.3%        | 9.7%        |
| Public Bk      | 18.9%        | 22.5%        | 15.3%        | 11.4%        | 11.7%        | 8.8%        |
| AMMB           | 35.2%        | 24.0%        | 11.4%        | 4.4%         | 11.8%        | 20.6%       |
| HL Bank        | 21.5%        | 27.4%        | 22.5%        | 16.9%        | 18.6%        | 11.7%       |
| RHB            | 28.3%        | 25.5%        | 10.8%        | 4.8%         | 4.5%         | (1.7%)      |
| ABMB           | 17.5%        | 25.7%        | 25.0%        | 14.1%        | 13.1%        | 3.4%        |
| <b>Average</b> | <b>22.8%</b> | <b>24.9%</b> | <b>15.0%</b> | <b>10.7%</b> | <b>12.8%</b> | <b>8.8%</b> |

Source: Banks

**Fig 8: CASA ratios**

|                | 4Q20         | 1Q21         | 2Q21         | 3Q21         | 4Q21         | 1Q22         |
|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Maybank        | 39.6%        | 41.1%        | 42.0%        | 42.7%        | 43.2%        | 42.5%        |
| CIMB           | 41.6%        | 42.7%        | 42.1%        | 42.1%        | 43.0%        | 44.1%        |
| Public Bk      | 28.9%        | 30.0%        | 29.7%        | 30.4%        | 31.0%        | 31.2%        |
| AMMB           | 28.1%        | 29.6%        | 29.9%        | 30.7%        | 29.9%        | 35.1%        |
| HL Bank        | 29.7%        | 31.0%        | 32.3%        | 32.3%        | 33.1%        | 33.1%        |
| RHB            | 30.9%        | 30.6%        | 29.3%        | 30.1%        | 29.9%        | 28.8%        |
| ABMB           | 44.6%        | 47.0%        | 49.4%        | 49.6%        | 50.0%        | 48.9%        |
| <b>Average</b> | <b>35.5%</b> | <b>36.7%</b> | <b>36.8%</b> | <b>37.3%</b> | <b>37.8%</b> | <b>38.0%</b> |

Source: Banks

## NIMs moderate in 1Q22

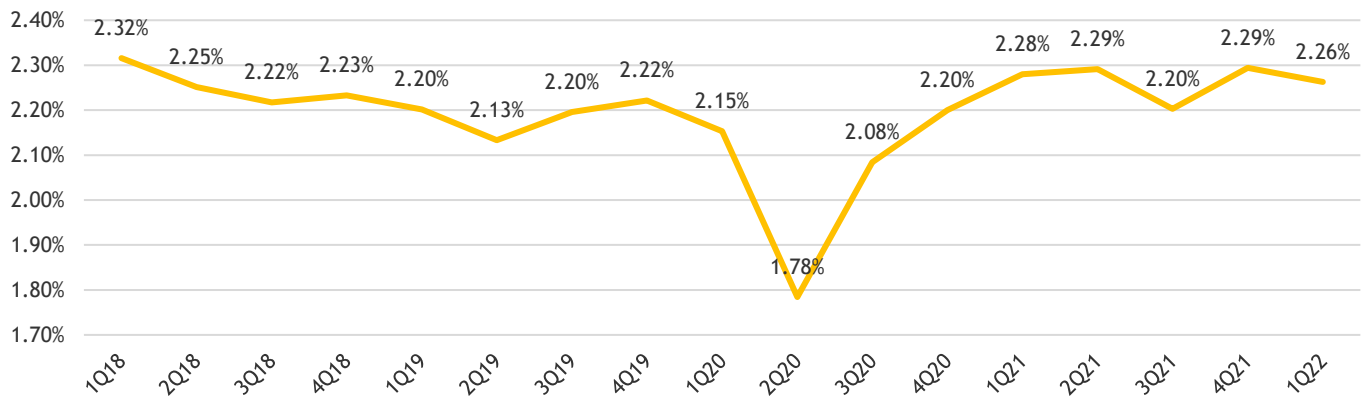
Aggregate NIMs of banks in our coverage contracted 3bps QoQ in 1Q22, with QoQ declines except for CIMB, Maybank and Public Bank, that eked out better NIMs during the period. Most other banks faced increased competition for fixed deposits and lower CASA ratios, which contributed to some margin pressure.

**Fig 9: Net interest margins - quarterly (including mod loss/gain)**

|                | 4Q20         | 1Q21         | 2Q21         | 3Q21         | 4Q21         | 1Q22         |
|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Maybank        | 2.15%        | 2.31%        | 2.37%        | 2.26%        | 2.32%        | 2.34%        |
| CIMB           | 2.37%        | 2.52%        | 2.48%        | 2.40%        | 2.41%        | 2.45%        |
| Public Bk      | 2.06%        | 2.28%        | 2.26%        | 2.15%        | 2.18%        | 2.24%        |
| AMMB           | 2.03%        | 2.08%        | 2.08%        | 2.03%        | 2.09%        | 2.00%        |
| HL Bank        | 2.15%        | 2.20%        | 2.20%        | 2.13%        | 2.19%        | 2.15%        |
| RHB            | 2.38%        | 2.16%        | 2.15%        | 1.98%        | 2.21%        | 2.16%        |
| ABMB           | 2.26%        | 2.41%        | 2.50%        | 2.47%        | 2.66%        | 2.50%        |
| <b>Average</b> | <b>2.20%</b> | <b>2.28%</b> | <b>2.29%</b> | <b>2.20%</b> | <b>2.29%</b> | <b>2.26%</b> |

Source: Banks

**Fig 10: Quarterly NIM (1Q18 - 1Q22)**



Source: Banks, Maybank IBG Research

**Fig 11: NIM in 2Q20-1Q22 with/without mod loss/gain**

|                              | ABMB  | AMMB  | BIMB  | CIMB  | HLBK  | MAY   | PBK   | RHB   |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Without mod loss/gain</b> |       |       |       |       |       |       |       |       |
| 2Q20                         | 2.21% | 1.74% | 2.30% | 2.35% | 1.92% | 2.11% | 1.98% | 2.05% |
| 3Q20                         | 2.23% | 1.86% | 2.33% | 2.24% | 2.00% | 2.05% | 2.01% | 1.99% |
| 4Q20                         | 2.26% | 1.95% | 2.49% | 2.31% | 2.15% | 2.15% | 2.10% | 2.15% |
| 1Q21                         | 2.41% | 2.52% | 2.47% | 2.52% | 2.20% | 2.31% | 2.28% | 2.17% |
| 2Q21                         | 2.50% | 1.99% | 2.41% | 2.51% | 2.20% | 2.37% | 2.26% | 2.15% |
| 3Q21                         | 2.51% | 1.94% | 2.36% | 2.46% | 2.21% | 2.33% | 2.15% | 2.10% |
| 4Q21                         | 2.66% | 1.96% | 2.30% | 2.40% | 2.19% | 2.32% | 2.18% | 2.16% |
| 1Q22                         | 2.50% | 1.94% | 2.30% | 2.45% | 2.15% | 2.34% | 2.24% | 2.11% |
| <b>With mod loss/gain</b>    |       |       |       |       |       |       |       |       |
| 2Q20                         | 2.21% | 1.59% | 1.84% | 2.15% | 1.62% | 1.95% | 1.57% | 1.40% |
| 3Q20                         | 2.23% | 1.92% | 2.36% | 2.31% | 2.00% | 2.05% | 2.09% | 1.99% |
| 4Q20                         | 2.26% | 2.03% | 2.42% | 2.37% | 2.15% | 2.15% | 2.06% | 2.38% |
| 1Q21                         | 2.41% | 2.52% | 2.48% | 2.52% | 2.20% | 2.31% | 2.28% | 2.16% |
| 2Q21                         | 2.50% | 2.08% | 2.46% | 2.48% | 2.20% | 2.37% | 2.26% | 2.15% |
| 3Q21                         | 2.47% | 2.03% | 2.11% | 2.40% | 2.13% | 2.26% | 2.15% | 1.98% |
| 4Q21                         | 2.66% | 2.09% | 2.35% | 2.41% | 2.19% | 2.32% | 2.18% | 2.21% |
| 1Q22                         | 2.50% | 2.00% | 2.36  | 2.45% | 2.15% | 2.34% | 2.24% | 2.16% |

Source: Banks

## Fee income declined YoY in 1Q22

Cumulative fee income declined 15% YoY, due mainly to lower stockbroking, unit trust and investment banking related fees during the period, as a result of lower capital market activity.

**Fig 12: Fee income growth (YoY chg)**

|                | 4Q20      | 1Q21       | 2Q21       | 3Q21        | 4Q21        | 1Q22         |
|----------------|-----------|------------|------------|-------------|-------------|--------------|
| Maybank        | 7%        | 23%        | 26%        | 4%          | (14%)       | (22%)        |
| CIMB           | (19%)     | 16%        | 38%        | 5%          | 19%         | (7%)         |
| Public Bk      | 29%       | 35%        | 23%        | (4%)        | (2%)        | (16%)        |
| AMMB           | 7%        | (4%)       | 33%        | (4%)        | 5%          | 16%          |
| HL Bank        | (5%)      | 18%        | 62%        | 1%          | 9%          | 14%          |
| RHB            | 20%       | 33%        | 27%        | (10%)       | (15%)       | (30%)        |
| ABMB           | 8%        | 3%         | 13%        | (35%)       | (29%)       | (22%)        |
| <b>Average</b> | <b>5%</b> | <b>23%</b> | <b>30%</b> | <b>(1%)</b> | <b>(4%)</b> | <b>(15%)</b> |

Source: Banks

## Other NOII contracted YoY

Other non-interest income (NOII) contracted 25% YoY in 1Q22, driven predominantly by marked-to-market (MTM) investment losses and/or lower forex profits during the quarter.

**Fig 13: Other non-interest income growth (YoY chg)**

|                | 4Q20      | 1Q21      | 2Q21         | 3Q21         | 4Q21         | 1Q22         |
|----------------|-----------|-----------|--------------|--------------|--------------|--------------|
| Maybank        | (4%)      | (26%)     | (70%)        | (48%)        | (53%)        | (35%)        |
| CIMB           | 62%       | 124%      | (2%)         | (45%)        | (53%)        | (15%)        |
| Public Bk      | (9%)      | (29%)     | (41%)        | (50%)        | (71%)        | 12%          |
| AMMB           | (33%)     | 308%      | (37%)        | (26%)        | (5%)         | (42%)        |
| HL Bank        | 3%        | 8%        | (85%)        | (44%)        | (85%)        | (84%)        |
| RHB            | (7%)      | (23%)     | (51%)        | 3%           | (46%)        | 57%          |
| ABMB           | 139%      | (23%)     | 26%          | (28%)        | (47%)        | 39%          |
| <b>Average</b> | <b>9%</b> | <b>4%</b> | <b>(48%)</b> | <b>(40%)</b> | <b>(52%)</b> | <b>(25%)</b> |

Source: Banks

With the YoY decline in both fee income and other-NOII, total NOII (including fee income) accounted for a lower 21.4% of total income in 1Q22 against 25.8% in 1Q21.

**Fig 14: Total NOII as % of total income**

|                | 4Q20         | 1Q21         | 2Q21         | 3Q21         | 4Q21         | 1Q22         |
|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Maybank        | 29.4%        | 29.8%        | 19.3%        | 21.4%        | 20.3%        | 22.6%        |
| CIMB           | 27.0%        | 25.0%        | 21.0%        | 18.7%        | 21.0%        | 22.6%        |
| Public Bk      | 23.8%        | 22.3%        | 21.4%        | 20.7%        | 18.9%        | 20.4%        |
| AMMB           | 27.3%        | 31.0%        | 31.0%        | 29.0%        | 27.7%        | 24.3%        |
| HL Bank        | 21.4%        | 19.8%        | 13.7%        | 17.8%        | 13.0%        | 13.0%        |
| RHB            | 26.8%        | 22.7%        | 25.0%        | 26.0%        | 19.9%        | 21.3%        |
| ABMB           | 27.2%        | 18.1%        | 21.2%        | 18.5%        | 16.4%        | 17.7%        |
| <b>Average</b> | <b>26.9%</b> | <b>25.8%</b> | <b>21.1%</b> | <b>21.3%</b> | <b>20.0%</b> | <b>21.4%</b> |

Source: Banks



## Negative JAWS across most banks

Operating expenses have started to normalize with the reopening of the economy, particularly with a pick-up in marketing costs and digital spend. Banks nevertheless continue to be prudent and cumulative overheads were still flat YoY. Given that operating income declined YoY across almost all banks, however, JAWS was negative for most banks with the exception of CIMB and ABMB. The overall cost/income ratio (CIR) averaged 43.6% in 1Q22 versus 42.2% in 1Q21.

**Fig 15: Operating expense growth (YoY chg)**

|                | 4Q20        | 1Q21      | 2Q21      | 3Q21      | 4Q21        | 1Q22      |
|----------------|-------------|-----------|-----------|-----------|-------------|-----------|
| Maybank        | (3%)        | (4%)      | 8%        | 4%        | 3%          | 4%        |
| CIMB           | (4%)        | 1%        | 5%        | 5%        | (4%)        | (5%)      |
| Public Bk      | 1%          | 3%        | 3%        | 3%        | (3%)        | 2%        |
| AMMB           | (1%)        | 1%        | (8%)      | (2%)      | (3%)        | 11%       |
| HL Bank        | (3%)        | (4%)      | 2%        | (3%)      | 0%          | 1%        |
| RHB            | (1%)        | 8%        | 5%        | 1%        | 2%          | (3%)      |
| ABMB           | (9%)        | 16%       | 4%        | 3%        | 12%         | (6%)      |
| <b>Average</b> | <b>(3%)</b> | <b>0%</b> | <b>5%</b> | <b>3%</b> | <b>(0%)</b> | <b>0%</b> |

Source: Banks

**Fig 16: Cost/income ratios**

|                | 4Q20         | 1Q21         | 2Q21         | 3Q21         | 4Q21         | 1Q22         |
|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Maybank        | 45.5%        | 41.3%        | 47.3%        | 45.1%        | 46.9%        | 45.5%        |
| CIMB           | 49.9%        | 48.7%        | 47.6%        | 51.4%        | 51.0%        | 47.0%        |
| Public Bk      | 32.7%        | 31.8%        | 31.3%        | 31.8%        | 31.5%        | 33.2%        |
| AMMB           | 47.6%        | 44.9%        | 42.3%        | 47.1%        | 46.7%        | 50.0%        |
| HL Bank        | 36.5%        | 37.0%        | 40.0%        | 35.7%        | 37.4%        | 38.4%        |
| RHB            | 43.3%        | 46.0%        | 43.1%        | 40.8%        | 46.6%        | 45.1%        |
| ABMB           | 40.2%        | 52.1%        | 40.0%        | 41.5%        | 44.8%        | 48.5%        |
| <b>Average</b> | <b>43.7%</b> | <b>42.2%</b> | <b>43.2%</b> | <b>43.2%</b> | <b>44.6%</b> | <b>43.6%</b> |

Source: Banks

## Asset quality improved marginally

Absolute gross impaired loans (GILs) declined 2% YoY but yet again, we stress that these numbers are not representative because consumer and SME credit scores for loans under the RA programmes are still frozen at this stage. Moreover, corporate restructured & rescheduled (R&R) loans need not need be classified as impaired.

The actual GIL situation will become more apparent over the next few months into June 2022, as the PEMULIH loans under moratorium unwind.

**Fig 17: Gross impaired loans (MYR'm)**

|                | 1Q21          | 2Q21          | 3Q21          | 4Q21          | 1Q22          | YoY chg     |
|----------------|---------------|---------------|---------------|---------------|---------------|-------------|
| Maybank        | 11,754        | 11,826        | 10,450        | 11,044        | 10,953        | (7%)        |
| CIMB           | 12,611        | 12,693        | 12,575        | 13,293        | 13,243        | 5%          |
| Public Bk      | 1,228         | 1,242         | 1,157         | 1,102         | 1,061         | (14%)       |
| AMMB           | 1,770         | 1,808         | 1,668         | 1,608         | 1,676         | (5%)        |
| HL Bank        | 808           | 717           | 755           | 732           | 779           | (4%)        |
| RHB            | 3,127         | 3,120         | 2,565         | 2,951         | 3,022         | (3%)        |
| ABMB           | 1,032         | 1,012         | 1,018         | 899           | 853           | (17%)       |
| <b>Average</b> | <b>32,331</b> | <b>32,419</b> | <b>30,188</b> | <b>31,627</b> | <b>31,588</b> | <b>(2%)</b> |

Source: Banks

The average GIL ratio was a lower 1.72% end-Mar 2022 versus 1.75% end-2021, and compares against 2.1% in 1Q20, i.e. before the start of the loan moratorium.

**Fig 18: Gross impaired loans ratios**

|                | 1Q21         | 2Q21         | 3Q21         | 4Q21         | 1Q22         |
|----------------|--------------|--------------|--------------|--------------|--------------|
| Maybank        | 2.20%        | 2.18%        | 1.93%        | 1.99%        | 1.95%        |
| CIMB           | 3.44%        | 3.44%        | 3.38%        | 3.52%        | 3.44%        |
| Public Bk      | 0.35%        | 0.35%        | 0.33%        | 0.31%        | 0.29%        |
| AMMB           | 1.54%        | 1.56%        | 1.44%        | 1.35%        | 1.40%        |
| HL Bank        | 0.53%        | 0.46%        | 0.48%        | 0.46%        | 0.48%        |
| RHB            | 1.66%        | 1.63%        | 1.32%        | 1.49%        | 1.50%        |
| ABMB           | 2.34%        | 2.34%        | 2.32%        | 2.02%        | 1.85%        |
| <b>Average</b> | <b>1.85%</b> | <b>1.83%</b> | <b>1.70%</b> | <b>1.75%</b> | <b>1.72%</b> |

Source: Banks

## Credit costs decline

Credit costs were mixed in 1Q22, with QoQ declines for CIMB, Public Bank and AMMB. In fact, AMMB wrote back a sizeable chunk of its management overlays during the quarter, which translated to a net write-back in provisions.

**Fig 19: Credit charges**

|                | 4Q20         | 1Q21         | 2Q21         | 3Q21         | 4Q21         | 1Q22         |
|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Maybank        | 0.84%        | 0.64%        | 0.39%        | 0.83%        | 0.11%        | 0.32%        |
| CIMB           | 1.51%        | 0.78%        | 0.68%        | 0.57%        | 0.76%        | 0.30%        |
| Public Bk      | 0.65%        | 0.23%        | 0.45%        | 0.37%        | 0.32%        | 0.11%        |
| AMMB           | 0.93%        | 1.61%        | 0.66%        | 0.57%        | 1.01%        | (0.82%)      |
| HL Bank        | 0.65%        | 0.30%        | 0.50%        | 0.13%        | 0.08%        | 0.13%        |
| RHB            | 1.19%        | 0.37%        | 0.48%        | 0.52%        | 0.18%        | 0.31%        |
| ABMB           | 1.39%        | 1.25%        | 0.87%        | 0.31%        | 0.14%        | 0.65%        |
| <b>Average</b> | <b>0.98%</b> | <b>0.61%</b> | <b>0.51%</b> | <b>0.56%</b> | <b>0.35%</b> | <b>0.19%</b> |

Source: Banks

## Stable loan loss coverage

Loan loss coverage averaged above 100% for all banks. Including regulatory reserves, the loan loss coverage ranged from 104% for CIMB, to a sizeable 403% for Public Bank.

**Fig 20: Loan loss coverage without regulatory reserves**

|                | 4Q20        | 1Q21        | 2Q21        | 3Q21        | 4Q21        | 1Q22        |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Maybank        | 99%         | 109%        | 111%        | 123%        | 108%        | 102%        |
| CIMB           | 92%         | 102%        | 102%        | 105%        | 100%        | 102%        |
| Public Bk      | 228%        | 247%        | 275%        | 321%        | 361%        | 383%        |
| AMMB           | 97%         | 129%        | 131%        | 150%        | 153%        | 115%        |
| HL Bank        | 193%        | 205%        | 247%        | 239%        | 251%        | 218%        |
| RHB            | 120%        | 120%        | 118%        | 148%        | 122%        | 126%        |
| ABMB           | 87%         | 98%         | 105%        | 106%        | 122%        | 136%        |
| <b>Average</b> | <b>105%</b> | <b>116%</b> | <b>118%</b> | <b>129%</b> | <b>121%</b> | <b>118%</b> |

Source: Banks

**Fig 21: Loan loss coverage including regulatory reserves**

|                | 4Q20        | 1Q21        | 2Q21        | 3Q21        | 4Q21        | 1Q22        |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Maybank        | 116%        | 122%        | 124%        | 138%        | 114%        | 111%        |
| CIMB           | 93%         | 103%        | 102%        | 105%        | 101%        | 104%        |
| Public Bk      | 325%        | 338%        | 332%        | 358%        | 383%        | 403%        |
| AMMB           | 100%        | 129%        | 131%        | 150%        | 154%        | 121%        |
| HL Bank        | 264%        | 275%        | 306%        | 296%        | 318%        | 290%        |
| RHB            | 121%        | 122%        | 119%        | 150%        | 133%        | 138%        |
| ABMB           | 101%        | 106%        | 110%        | 111%        | 127%        | 142%        |
| <b>Average</b> | <b>118%</b> | <b>128%</b> | <b>129%</b> | <b>139%</b> | <b>129%</b> | <b>128%</b> |

Source: Banks

## A look at pre-emptive provisions

Having proactively set aside pre-emptive provisions over the past two years, management overlays tapered off in 1Q22, with write-backs for AMMB and CIMB during the quarter. The table below shows the level of pre-emptive provisions put through by each bank, both in MYR'm and in basis points. In totality, the banks in our coverage have set aside a total of MYR9.5b worth of pre-emptive provisions since 1Q20.

**Fig 22: Pre-emptive provisions**

| <b>ABMB</b>  |           |           |            |            |            |           |           |           |           |
|--------------|-----------|-----------|------------|------------|------------|-----------|-----------|-----------|-----------|
| MYR'm        | 1Q20      | 2Q20      | 3Q20       | 4Q20       | 1Q21       | 2Q21      | 3Q21      | 4Q21      | 1Q22      |
| Pre-emptive  | 35        | 59        | 151        | 15         | 89         | 65        | 21        | 32        | 20        |
| BAU          | 64        | 36        | -          | 136        | 47         | 30        | 13        | (17)      | 53        |
| <b>Total</b> | <b>98</b> | <b>95</b> | <b>151</b> | <b>151</b> | <b>137</b> | <b>95</b> | <b>34</b> | <b>15</b> | <b>73</b> |
| bps          | 1Q20      | 2Q20      | 3Q20       | 4Q20       | 1Q21       | 2Q21      | 3Q21      | 4Q21      | 1Q22      |
| Pre-emptive  | 32        | 54        | 138        | 14         | 79         | 60        | 19        | 27        | 13        |
| BAU          | 58        | 34        | -          | 125        | 42         | 28        | 11        | (14)      | 35        |
| <b>Total</b> | <b>91</b> | <b>87</b> | <b>138</b> | <b>140</b> | <b>120</b> | <b>87</b> | <b>30</b> | <b>13</b> | <b>48</b> |

| <b>AMMB</b>  |            |           |            |            |            |            |            |            |            |
|--------------|------------|-----------|------------|------------|------------|------------|------------|------------|------------|
| MYR'm        | 1Q20       | 2Q20      | 3Q20       | 4Q20       | 1Q21       | 2Q21       | 3Q21       | 4Q21       | 1Q22       |
| Pre-emptive  | 167        | 10        | 205        | 60         | 304        | 87         | 68         | 45         | (552)      |
| BAU          | 28         | 32        | 157        | 198        | 152        | 102        | 96         | 317        | 795        |
| <b>Total</b> | <b>195</b> | <b>43</b> | <b>361</b> | <b>258</b> | <b>455</b> | <b>189</b> | <b>163</b> | <b>362</b> | <b>244</b> |
| bps          | 1Q20       | 2Q20      | 3Q20       | 4Q20       | 1Q21       | 2Q21       | 3Q21       | 4Q21       | 1Q22       |
| Pre-emptive  | 64         | 4         | 75         | 22         | 107        | 30         | 24         | 13         | (147)      |
| BAU          | 10         | 12        | 58         | 71         | 54         | 35         | 33         | 88         | 212        |
| <b>Total</b> | <b>74</b>  | <b>16</b> | <b>133</b> | <b>93</b>  | <b>161</b> | <b>65</b>  | <b>57</b>  | <b>101</b> | <b>65</b>  |

| <b>CIMB</b>  |            |              |              |              |            |            |            |            |            |
|--------------|------------|--------------|--------------|--------------|------------|------------|------------|------------|------------|
| MYR'm        | 1Q20       | 2Q20         | 3Q20         | 4Q20         | 1Q21       | 2Q21       | 3Q21       | 4Q21       | 1Q22       |
| Pre-emptive  | 146        | 602          | 730          | 880          | 203        | 188        | 453        | 486        | (25)       |
| BAU          | 822        | 868          | 790          | 504          | 513        | 464        | 76         | 231        | 312        |
| <b>Total</b> | <b>968</b> | <b>1,470</b> | <b>1,520</b> | <b>1,384</b> | <b>716</b> | <b>652</b> | <b>529</b> | <b>717</b> | <b>287</b> |
| bps          | 1Q20       | 2Q20         | 3Q20         | 4Q20         | 1Q21       | 2Q21       | 3Q21       | 4Q21       | 1Q22       |
| Pre-emptive  | 16         | 65           | 79           | 96           | 22         | 20         | 53         | 57         | (3)        |
| BAU          | 90         | 94           | 86           | 55           | 56         | 48         | 9          | 27         | 37         |
| <b>Total</b> | <b>106</b> | <b>159</b>   | <b>165</b>   | <b>151</b>   | <b>78</b>  | <b>68</b>  | <b>62</b>  | <b>84</b>  | <b>34</b>  |

| <b>HL Bank</b> |            |            |            |            |            |            |           |           |           |
|----------------|------------|------------|------------|------------|------------|------------|-----------|-----------|-----------|
| MYR'm          | 1Q20       | 2Q20       | 3Q20       | 4Q20       | 1Q21       | 2Q21       | 3Q21      | 4Q21      | 1Q22      |
| Pre-emptive    | -          | 301        | 238        | 61         | 55         | 157        | 23        | 38        | 0         |
| BAU            | 126        | (110)      | (134)      | 180        | 59         | 37         | 26        | (5)       | 51        |
| <b>Total</b>   | <b>126</b> | <b>191</b> | <b>104</b> | <b>241</b> | <b>114</b> | <b>194</b> | <b>49</b> | <b>33</b> | <b>51</b> |
| bps            | 1Q20       | 2Q20       | 3Q20       | 4Q20       | 1Q21       | 2Q21       | 3Q21      | 4Q21      | 1Q22      |
| Pre-emptive    | -          | 84         | 65         | 17         | 14         | 40         | 6         | 9         | 0         |
| BAU            | 35         | (31)       | (37)       | 48         | 16         | 10         | 7         | (1)       | 13        |
| <b>Total</b>   | <b>35</b>  | <b>53</b>  | <b>28</b>  | <b>65</b>  | <b>30</b>  | <b>50</b>  | <b>13</b> | <b>8</b>  | <b>13</b> |

Fig 22: Pre-emptive provisions continued...

| <b>Maybank</b>     |              |              |              |              |              |              |              |              |              |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| MYR'm              | 1Q20         | 2Q20         | 3Q20         | 4Q20         | 1Q21         | 2Q21         | 3Q21         | 4Q21         | 1Q22         |
| Pre-emptive        | 600          | 900          | 580          | 70           | 200          | 240          | 547          | (241)        | 0            |
| BAU                | 362          | 839          | 224          | 1,023        | 650          | 285          | 579          | 399          | 443          |
| <b>Total</b>       | <b>962</b>   | <b>1,739</b> | <b>804</b>   | <b>1,093</b> | <b>850</b>   | <b>525</b>   | <b>1,126</b> | <b>158</b>   | <b>443</b>   |
| <b>bps</b>         | <b>1Q20</b>  | <b>2Q20</b>  | <b>3Q20</b>  | <b>4Q20</b>  | <b>1Q21</b>  | <b>2Q21</b>  | <b>3Q21</b>  | <b>4Q21</b>  | <b>1Q22</b>  |
| Pre-emptive        | 46           | 69           | 44           | 5            | 15           | 18           | 40           | (18)         | 0            |
| BAU                | 27           | 64           | 17           | 79           | 49           | 21           | 43           | 29           | 32           |
| <b>Total</b>       | <b>73</b>    | <b>133</b>   | <b>61</b>    | <b>84</b>    | <b>64</b>    | <b>39</b>    | <b>83</b>    | <b>11</b>    | <b>32</b>    |
| <b>Public Bank</b> |              |              |              |              |              |              |              |              |              |
| MYR'm              | 1Q20         | 2Q20         | 3Q20         | 4Q20         | 1Q21         | 2Q21         | 3Q21         | 4Q21         | 1Q22         |
| Pre-emptive        | 18           | 111          | 284          | 334          | -            | 470          | 300          | 230          | 0            |
| BAU                | 44           | 43           | 50           | 223          | 198          | (74)         | 24           | 52           | 100          |
| <b>Total</b>       | <b>61</b>    | <b>154</b>   | <b>335</b>   | <b>557</b>   | <b>198</b>   | <b>396</b>   | <b>324</b>   | <b>282</b>   | <b>100</b>   |
| <b>bps</b>         | <b>1Q20</b>  | <b>2Q20</b>  | <b>3Q20</b>  | <b>4Q20</b>  | <b>1Q21</b>  | <b>2Q21</b>  | <b>3Q21</b>  | <b>4Q21</b>  | <b>1Q22</b>  |
| Pre-emptive        | 2            | 13           | 34           | 39           | -            | 53           | 34           | 28           | 0            |
| BAU                | 5            | 5            | 6            | 26           | 23           | (8)          | 3            | 6            | 11           |
| <b>Total</b>       | <b>7</b>     | <b>18</b>    | <b>40</b>    | <b>65</b>    | <b>23</b>    | <b>45</b>    | <b>37</b>    | <b>34</b>    | <b>11</b>    |
| <b>RHB Bank</b>    |              |              |              |              |              |              |              |              |              |
| MYR'm              | 1Q20         | 2Q20         | 3Q20         | 4Q20         | 1Q21         | 2Q21         | 3Q21         | 4Q21         | 1Q22         |
| Pre-emptive        | 50           | 200          | 192          | 114          | 94           | 236          | 234          | (302)        | 90           |
| BAU                | 101          | 7            | (24)         | 435          | 86           | (17)         | 252          | (8)          | 56           |
| <b>Total</b>       | <b>151</b>   | <b>207</b>   | <b>168</b>   | <b>549</b>   | <b>180</b>   | <b>219</b>   | <b>486</b>   | <b>(310)</b> | <b>146</b>   |
| <b>bps</b>         | <b>1Q20</b>  | <b>2Q20</b>  | <b>3Q20</b>  | <b>4Q20</b>  | <b>1Q21</b>  | <b>2Q21</b>  | <b>3Q21</b>  | <b>4Q21</b>  | <b>1Q22</b>  |
| Pre-emptive        | 11           | 44           | 42           | 25           | 20           | 50           | 25           | (15)         | 18           |
| BAU                | 23           | 2            | (5)          | 93           | 19           | (4)          | 26           | (0)          | 11           |
| <b>Total</b>       | <b>34</b>    | <b>46</b>    | <b>37</b>    | <b>118</b>   | <b>39</b>    | <b>46</b>    | <b>51</b>    | <b>(15)</b>  | <b>29</b>    |
| <b>TOTAL</b>       |              |              |              |              |              |              |              |              |              |
| MYR'm              | 1Q20         | 2Q20         | 3Q20         | 4Q20         | 1Q21         | 2Q21         | 3Q21         | 4Q21         | 1Q22         |
| Pre-emptive        | 1,016        | 2,183        | 2,379        | 1,534        | 945          | 1,443        | 1,599        | (7)          | (467)        |
| BAU                | 1,546        | 1,716        | 1,063        | 2,698        | 1,706        | 827          | 878          | 1,499        | 1,811        |
| <b>Total</b>       | <b>2,561</b> | <b>3,899</b> | <b>3,443</b> | <b>4,232</b> | <b>2,651</b> | <b>2,270</b> | <b>2,477</b> | <b>1,492</b> | <b>1,344</b> |

Source: Banks

## Comfortable CET1 ratios

Group CET1 ratios are comfortable for all banks. Even AMMB, which saw a plunge in its CET1 ratio to 10.4% in 1Q21 following the Global Settlement provision of MYR2.83b, has steadily rebuilt its CET1 to 11.6% end-Mar 2022 (non-transitional basis). The divestment of AmGeneral Insurance will accrete another 25bps while in FY23. The adoption of the Internal Risk Based Framework could eventually add over 140bps.

**Fig 23: Group CET1 ratios (%)**

|           | 31.3.21 | 30.6.21 | 30.9.21 | 31.12.21 | 31.3.22 |
|-----------|---------|---------|---------|----------|---------|
| Maybank   | 14.8    | 14.6    | 14.2    | 16.1     | 14.9    |
| CIMB      | 12.9    | 13.4    | 13.9    | 14.5     | 14.5    |
| Public Bk | 13.8    | 14.3    | 14.1    | 14.5     | 14.3    |
| AMMB      | 10.4    | 11.3    | 11.6    | 11.9     | 11.6    |
| HL Bank   | 13.0    | 13.6    | 13.0    | 13.1     | 12.7    |
| RHB       | 15.6    | 16.8    | 16.8    | 17.2     | 16.8    |
| ABMB      | 15.0    | 15.5    | 16.0    | 16.5     | 14.6    |

Source: Banks

**Fig 24: Commercial bank CET1 ratios (%)**

|           | 31.3.21 | 30.6.21 | 30.9.21 | 31.12.21 | 31.3.22 |
|-----------|---------|---------|---------|----------|---------|
| Maybank   | 14.8    | 14.6    | 13.0    | 15.5     | 13.5    |
| CIMB      | 13.1    | 13.1    | 13.1    | 14.5     | 14.1    |
| Public Bk | 13.8    | 13.1    | 13.0    | 13.3     | 13.2    |
| AMMB      | 10.4    | 11.2    | 11.4    | 11.5     | 11.2    |
| HL Bank   | 13.2    | 13.3    | 12.9    | 13.3     | 13.0    |
| RHB       | 14.3    | 15.8    | 15.7    | 15.2     | 14.7    |
| ABMB      | 14.3    | 14.8    | 15.0    | 14.6     | 14.6    |

Source: Banks

## Looking ahead ...

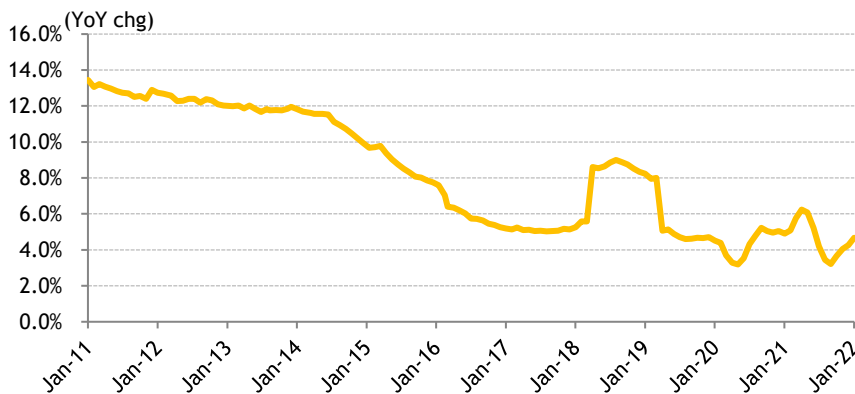
Loan growth picked up pace to 5% YoY in Apr 2022 from 4.6% YoY in March. Household (HH) loan growth was stable at 4.9% YoY but non-HH loan growth picked up pace to 5.1% YoY from 4.1% YoY in Mar 2022.

**Fig 25: Total industry YoY loan growth (Apr 2007 - Apr 2022)**



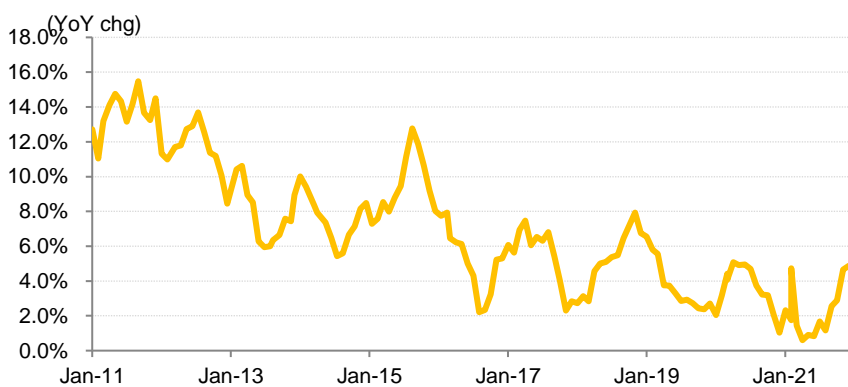
Source: BNM

**Fig 26: YoY household loan growth (Apr 2007 - Apr 2022)**



Source: BNM

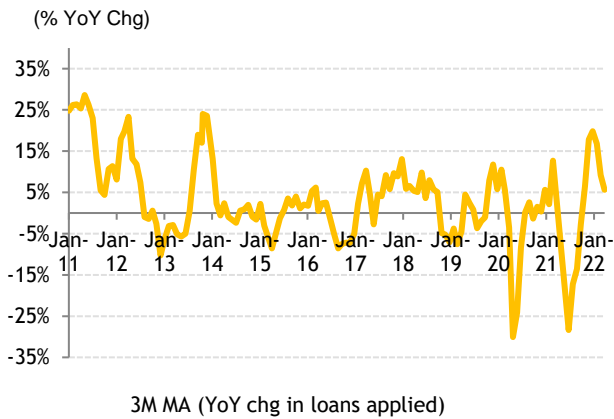
**Fig 27: YoY non-household loan growth (Jan 2011 - Apr 2022)**



Source: BNM

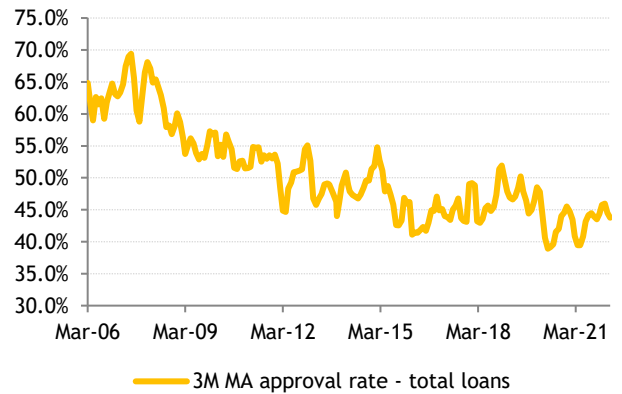
Having expanded at a double-digit pace from Nov 2021 to Feb 2022, loan applications slowed to 5.1% YoY in March 2022 and contracted 0.6% in Apr 2022. On a 3-month moving average (3M MA) basis, loan application growth slowed to 5.6% in April from 9.2% in March. Positively, working capital loan applications on a 3M MA basis remained robust, rising 31.5% YoY in April, this being the fifth consecutive month of growth above 20%.

**Fig 28: 3M MA (YoY chg in total loan applications)**



Source: BNM, Maybank IBG Research

**Fig 29: 3M MA (total loans approval rate)**



Source: BNM, Maybank IBG Research

### Forecast domestic loan growth of 4.9%

For our basket of banks, we project total loan (including overseas loans) growth of 4.9%, in line with our domestic industry loan growth forecast of 4.9%. As the table would indicate, our FY22 loan growth assumptions are at the lower end of guidance for most banks, as we remain wary of the impact of inflationary pressures on domestic consumption demand.

**Fig 30: MIBG's loan growth estimates versus banks' guidance**

|           | FY21A | FY22E mgt guidance | FY22E | FY23E |
|-----------|-------|--------------------|-------|-------|
| ABMB ^    | 4.6%  | 6-8%               | 5.5%  | 4.0%  |
| AMMB ^    | 4.6%  | 6%                 | 4.5%  | 4.5%  |
| BIMB      | 6.5%  | 8.0%               | 5.0%  | 4.0%  |
| CIMB      | 3.3%  | 5-6%               | 5.1%  | 4.5%  |
| HL Bank @ | 6.8%  | 6-7%               | 6.4%  | 5.0%  |
| Maybank   | 5.7%  | NA                 | NA    | NA    |
| Public Bk | 3.6%  | 5%                 | 4.7%  | 4.5%  |
| RHB       | 6.7%  | 4-5%               | 4.4%  | 4.0%  |

Source: Banks, Maybank IBG Research

^ FYE3/22A - FY3/24E

@ FYE6/21A-FYE6/23E



## Stable to improved NIMs expected into 2022

The table below sets out the estimated impact to banks' NIMs for every 25bps OPR hike.

**Fig 31: Estimated positive impact to NIM from a 25bps OPR hike (bps chg)**

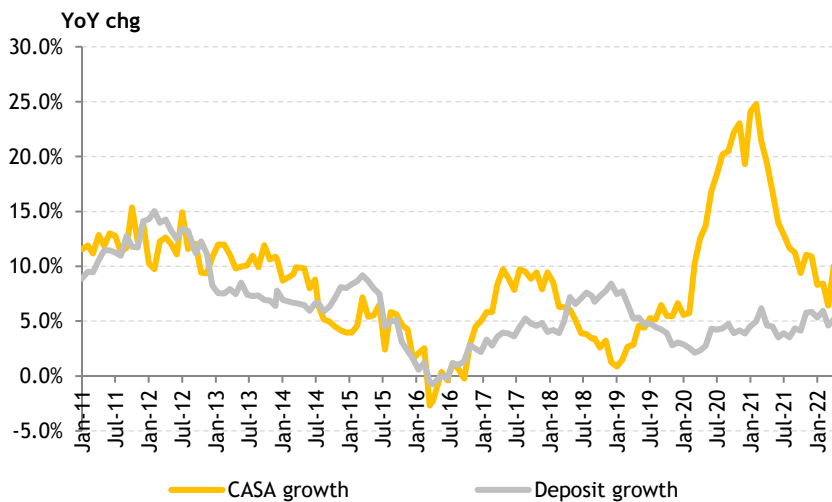
|      | bps |             | bps |
|------|-----|-------------|-----|
| ABMB | 4   | HL Bank     | 4   |
| AMMB | 2-3 | Maybank     | 1-2 |
| BIMB | 2-3 | Public Bank | 2   |
| CIMB | 2   | RHB         | 3   |

Source: Banks

Following from the recent surprise 25bp OPR hike on May 11, Maybank IBG Research's internal Economics Team now expects a 50bp rate hike in total this year and 75bps in 2023, versus 25bps in 2022 and 100bps in 2023 previously.

Conservatively, our bank forecasts currently factor in only the impact of the recent 25bp OPR hike, and earnings could surprise on the upside should all the rate hikes materialize. We take a more cautious stance in light of i) slower CASA growth and ii) a pick-up in fixed deposit competition, offset by i) higher asset utilization as loan growth picks up, and ii) reduced mod losses.

**Figure 32: Total deposits vs CASA growth (Sep 2010 - Apr 2021)**



Source: BNM

In the table below, the NIMs highlighted in red reflect changes from earlier guidance. ABMB and AMMB, which have March financial year ends, have introduced their NIM guidance into FYE3/23, with expectations of stable to a 5bps enhancement in NIM, in FY23. CIMB has raised its guidance from a contraction of up to 5bps to an expansion of up to 5bps in FY22, factoring in a) a 5bps expansion in Malaysia versus a contraction before, and b) stable NIMs in Indonesia vs a contraction of up to 20bps before. RHB has raised its FY22 NIM guidance to 2.14% from 2.11% before, factoring in the impact of the recent OPR hike.

**Fig 33: MIBG’s NIM estimates versus banks’ guidance**

|           | FY21A | FY22E mgt guidance | FY22E | FY23E |
|-----------|-------|--------------------|-------|-------|
| ABMB *    | 2.53% | 2.50%              | 2.54% | 2.54% |
| AMMB *    | 2.05% | 2.05-2.10%         | 2.05% | 2.07% |
| BIMB      | 2.35% | 2.40%              | 2.39% | 2.42% |
| CIMB      | 2.45% | 2.50%              | 2.47% | 2.49% |
| HL Bank @ | 2.14% | >2.10%             | 2.17% | 2.14% |
| Maybank   | 2.32% | stable             | NA    | NA    |
| Public Bk | 2.22% | stable             | 2.21% | 2.24% |
| RHB       | 2.11% | 2.14%              | 2.12% | 2.15% |

Source: Banks, Maybank IBG Research

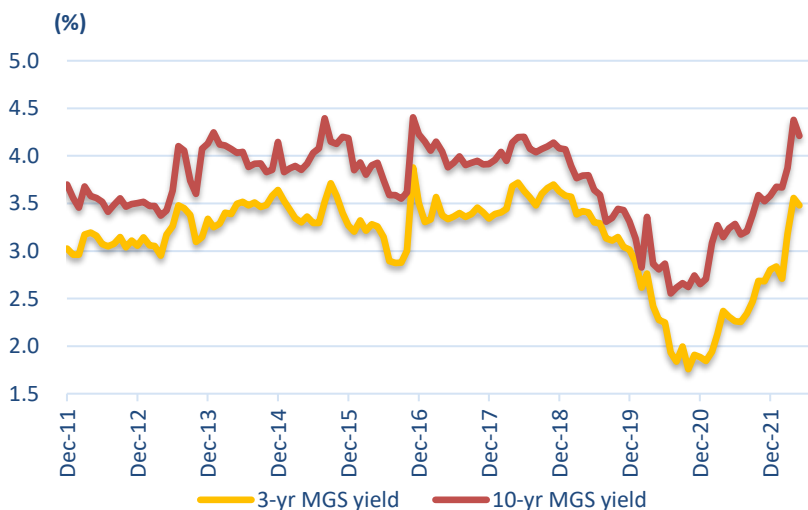
\* FYE3/22A - FY3/24E

@ FYE6/21A-FYE6/23E

### Steepening of the yield curve

Alongside the 125bps cut in the OPR, the yields on Malaysian Government Securities (MGS) trended down in 2020, but have been on the rise since. In 2021, the 3-year MGS yield rose about 92bps while the 10-year was 97bps higher by Dec 2021. Between Dec 2021 and Mar 2022, the 3-year and 10-year MGS yields rose 38 and 30bps respectively and since then, they have risen another 30 and 34bps each.

**Fig 34: 3-year & 10-year MGS yields (Dec 2011 - present)**



Source: BNM

The risk to banks’ earnings would be of further strength in bond yields, that would contribute to marked-to-market losses and/or lower realized gains. We have generally been cautious on this front and have factored in lower NOII in 2022 for the banks in our coverage.

Banks that could see a larger MTM loss if bond yields rise, would be those that have a larger percentage of financial assets (FA) at fair value through profit or loss (FVTPL), as unrealized marked-to-market gains/losses on these financial instruments are taken directly to the P&L, while unrealized MTM gains/losses on financial assets at fair value through other comprehensive income (FVOCI) are reflected as movements in the shareholders' funds.

This being the case, Public Bank, ABMB and RHB could weather through higher bond yields better than the other banks, for only 3%, 5% and 6% of their respective financial assets are classified under FVTPL. CIMB and AMMB could see larger hits, given their larger proportion of FVTPL investments of 27% and 21% respectively.

**Fig 35: Financial assets according to classification**

|              | ABMB          | AMMB          | BIMB          | CIMB           | HLBK          | MAY            | PBK           | RHB           |
|--------------|---------------|---------------|---------------|----------------|---------------|----------------|---------------|---------------|
| FA @ FVTPL   | 542           | 7,217         | 1,415         | 43,650         | 9,505         | 28,326         | 2,208         | 3,920         |
| FA @ FVOCI   | 9,120         | 18,757        | 12,318        | 61,354         | 27,712        | 127,737        | 51,685        | 40,975        |
| FA @ cost    | 2,130         | 9,038         | 1,512         | 57,184         | 29,644        | 66,035         | 25,543        | 19,555        |
|              | <b>11,791</b> | <b>35,011</b> | <b>15,245</b> | <b>162,187</b> | <b>66,861</b> | <b>222,098</b> | <b>79,437</b> | <b>64,450</b> |
| FA @ FVTPL   | 5%            | 21%           | 9%            | 27%            | 14%           | 13%            | 3%            | 6%            |
| FA @ FVOCI   | 77%           | 54%           | 81%           | 38%            | 41%           | 58%            | 65%           | 64%           |
| FA @ cost    | 18%           | 26%           | 10%           | 35%            | 44%           | 30%            | 32%           | 30%           |
| <b>Total</b> | <b>100%</b>   | <b>100%</b>   | <b>100%</b>   | <b>100%</b>    | <b>100%</b>   | <b>100%</b>    | <b>100%</b>   | <b>100%</b>   |

Source: Banks

## Asset quality risk from loans under RA...

Impaired loans rose 5% YoY in absolute terms, and are up 11% YTD. Impaired loans were higher YTD mainly for share financing (+5%), purchase of non-residential property (+2%), personal loans (+12%) and working capital loans (+25%). As such, the industry's gross impaired loans (GIL) ratio was higher at 1.57% in Apr 2022 versus 1.44% in Dec 2021.

**Figure 36: GIL ratios by segment**

|                           | Apr 22       | Mar 22       | Feb 22       | Jan 22       | Dec 21       |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Securities                | 0.51%        | 0.50%        | 0.50%        | 0.50%        | 0.50%        |
| Transport vehicles        | 0.55%        | 0.57%        | 0.64%        | 0.63%        | 0.67%        |
| <i>Passenger vehicles</i> | <i>0.36%</i> | <i>0.39%</i> | <i>0.42%</i> | <i>0.41%</i> | <i>0.45%</i> |
| Residential property      | 1.24%        | 1.22%        | 1.21%        | 1.18%        | 1.17%        |
| Non-residential prop      | 1.47%        | 1.45%        | 1.44%        | 1.42%        | 1.46%        |
| Fixed assets              | 1.79%        | 1.81%        | 1.78%        | 1.82%        | 1.84%        |
| Personal use              | 1.93%        | 1.82%        | 1.79%        | 1.78%        | 1.75%        |
| Credit card               | 0.84%        | 0.85%        | 0.85%        | 0.85%        | 0.89%        |
| Consumer durables         | 3.18%        | 3.38%        | 3.26%        | 3.28%        | 3.42%        |
| Construction              | 5.80%        | 5.70%        | 5.09%        | 5.03%        | 5.21%        |
| Working capital           | 2.25%        | 2.23%        | 2.19%        | 1.89%        | 1.85%        |
| Other purposes            | 1.45%        | 1.41%        | 1.40%        | 1.45%        | 1.44%        |
| <b>Total</b>              | <b>1.57%</b> | <b>1.54%</b> | <b>1.53%</b> | <b>1.45%</b> | <b>1.44%</b> |

Source: BNM. Maybank IBG Research

Applications for the PEMULIH programme ended in Dec 2021. However, asset quality issues, if any, will only be more apparent in 3Q22, when borrowers resume normal repayments. Applications for the URUS programme extend to March 2022, but the take-up rate has thus far been lower and manageable. All in, the actual default position on loans under TRA would only be clearer towards 2Q22-3Q22.

## ...but are provisions sufficient to cover defaults on RA loans?

We think they are at this stage. In our stress test, we have assumed the following:

- That total pre-emptive provisions set aside to date and remaining balances in regulatory reserves, go towards covering potential defaults on repayment assistance (RA) loans.
- A default rate of 20% and a loss given default (LGD) rate of 30%. We think a default rate of 20% on the entire RA book is reasonably prudent at this stage, in light of the re-opening of the economy. We also think that an LGD of 30% is comfortable, given that anecdotal evidence suggests it averages about 20% for consumer loans (bulk of such loans comprise mortgages) and about 40% for SME loans. These percentages will vary from bank to bank.

From the table below, it would appear that current provision levels are sufficient, especially since the percentage of loans under RA is likely to trend down further in the coming months. Loan loss coverage on potential RA defaults range from 102% for Maybank to 391% for HL Bank.

**Fig 37: Sensitivity analysis on the sufficiency of pre-emptive provisions**

| (MYR'm)                      | ABMB       | AMMB       | CIMB         | HLBK         | MAY          | PBK          | RHB          |
|------------------------------|------------|------------|--------------|--------------|--------------|--------------|--------------|
| Pre-emptive provisions       | 487        | 394        | 2,200        | 873          | 2,896        | 1,747        | 908          |
| Regulatory reserves          | 48         | 103        | 301          | 560          | 1,667        | 177          | 363          |
| Total pre-emptive provisions | <b>534</b> | <b>497</b> | <b>2,501</b> | <b>1,433</b> | <b>4,563</b> | <b>1,924</b> | <b>1,271</b> |
| Total RA loans               | 6,280      | 6,600      | 19,235       | 6,100        | 74,900       | 20,100       | 9,200        |
| Total loans                  | 46,189     | 119,993    | 384,721      | 162,494      | 562,047      | 362,732      | 201,348      |
| % RA loans                   | 14%        | 6%         | 5%           | 4%           | 13%          | 6%           | 5%           |
| Assumed LGD                  | 30%        | 30%        | 30%          | 30%          | 30%          | 30%          | 30%          |
| Assumed default rate         | 20%        | 20%        | 20%          | 20%          | 20%          | 20%          | 20%          |
| Loss on default              | 377        | 396        | 1,154        | 366          | 4,494        | 1,206        | 552          |
| Loan loss coverage           | 142%       | 125%       | 217%         | 391%         | 102%         | 160%         | 230%         |

Source: Maybank IBG Research

## Keeping credit cost assumptions elevated

Banks have generally started to lower/write back some of the management overlays that had been put through over the past two years. Our credit cost assumptions for FY22 largely mirror the credit cost guidance of the various banks.

**Fig 38: MIBG's credit cost estimates versus banks' guidance**

|           | FY21A | FY22E mgt guidance | FY22E | FY23E |
|-----------|-------|--------------------|-------|-------|
| ABMB *    | 1.21% | 0.40-0.45%         | 0.45% | 0.40% |
| AMMB *    | 1.01% | 0.35-0.40%         | 0.50% | 0.50% |
| BIMB      | 0.35% | 0.35%              | 0.25% | 0.20% |
| CIMB      | 0.73% | 0.70%              | 0.50% | 0.45% |
| HL Bank @ | 0.43% | 0.10%              | 0.10% | 0.10% |
| Maybank   | 0.49% | 0.4-0.5%           | NA    | NA    |
| Public Bk | 0.34% | <0.20%             | 0.20% | 0.15% |
| RHB       | 0.38% | 0.30%              | 0.40% | 0.40% |

Source: Banks, Maybank IBG Research

\* FYE3/22A - FY3/24E

@ FYE6/21A-FYE6/23E

Fig 39 below shows our credit cost estimates relative to the 3-year pre-COVID credit cost averages from FY17 to FY19. What it does indicate is that we have chosen to keep credit cost assumptions elevated into FY23 on grounds of prudence, given prevailing global and domestic uncertainties.

**Fig 39: Credit cost estimates relative to pre-COVID averages**

|           | FY17-19 | FY20-21 | FY22E | FY23E |
|-----------|---------|---------|-------|-------|
| ABMB *    | 0.26%   | 0.92%   | 0.45% | 0.40% |
| AMMB *    | (0.17%) | 0.66%   | 0.50% | 0.50% |
| BIMB      | 0.11%   | 0.36%   | 0.25% | 0.20% |
| CIMB      | 0.54%   | 1.07%   | 0.50% | 0.45% |
| HL Bank @ | 0.07%   | 0.33%   | 0.10% | 0.10% |
| Maybank   | 0.38%   | 0.69%   | NA    | NA    |
| Public Bk | 0.06%   | 0.33%   | 0.20% | 0.15% |
| RHB       | 0.21%   | 0.49%   | 0.40% | 0.40% |

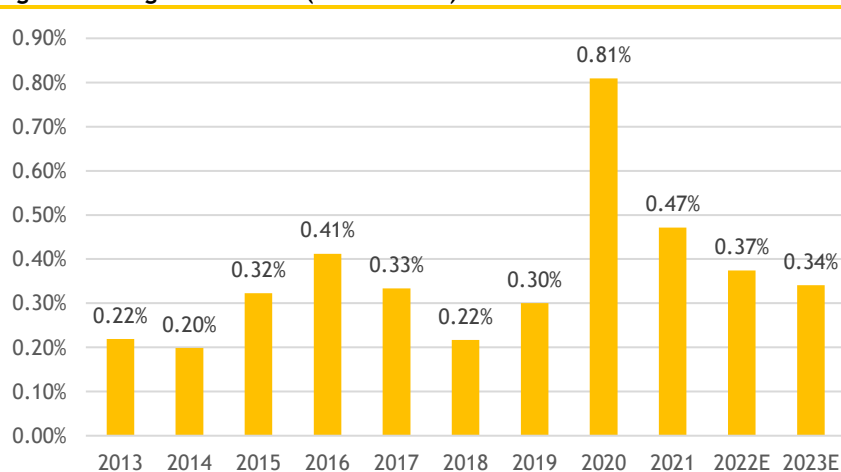
Source: Banks, Maybank IBG Research

^ FYE3/21A - FY3/23E

@ FYE6/21A-FYE6/23E

On a calendarized basis, we project credit costs to average 37bps in 2022E and 34bps in 2023E, against a pre-COVID average of 28bps from FY17-FY19.

**Fig 40: Average credit cost (2013-2023E)**



Source: Maybank IBG Research

## Earnings outlook

### 2% operating profit growth in 2022E, +6% in 2023E

We project cumulative operating profit to be flat (+2%) in 2022. While loan growth is expected to be moderately faster, we expect:

- NIMs to be stable, with potential upside should BNM further hike rates, moderated in part by slower CASA growth and fixed deposit competition;
- Lower NOII on the back of possible investment losses/lower investment gains; and
- Faster expansion in operating expense, with the recovery in economic activity and higher digital spend, especially with the new digital banking licenses now having been awarded.

Cumulative operating profit is projected to expand 6% in 2023 predominantly on moderately improved interest margins and the resumption in NOII growth. Any potential positive surprises would emanate from better NIMs, given that we have not factored in any rate hikes in 2023 just yet.

Fig 41: Operating profit (calendarized)

|               | 2019          | 2020          | 2021          | 2022E         | 2023E         | 2-yr CAGR<br>2021-23E |
|---------------|---------------|---------------|---------------|---------------|---------------|-----------------------|
| ABMB          | 874           | 983           | 1,038         | 1,072         | 1,132         |                       |
| Growth        | 3.9%          | 12.6%         | 5.5%          | 3.3%          | 5.7%          | 4.5%                  |
| AMMB          | 1,976         | 2,372         | 2,423         | 2,460         | 2,587         |                       |
| Growth        | 26.4%         | 20.0%         | 2.1%          | 1.5%          | 5.2%          | 3.3%                  |
| BIMB          | 748           | 939           | 599           | 762           | 844           |                       |
| Growth        | 29.4%         | 25.5%         | -36.2%        | 27.4%         | 10.8%         | 18.8%                 |
| CIMB          | 8,043         | 8,398         | 9,179         | 9,629         | 10,267        |                       |
| Growth        | 5.3%          | 4.4%          | 9.3%          | 4.9%          | 6.6%          | 5.8%                  |
| HL Bank       | 2,680         | 3,103         | 3,514         | 3,704         | 3,840         |                       |
| Growth        | 1.5%          | 15.8%         | 13.2%         | 5.4%          | 3.7%          | 4.5%                  |
| Maybank       | 13,179        | 13,832        | 14,035        | 14,072        | 14,867        |                       |
| Growth        | 6.1%          | 5.0%          | 1.5%          | 0.3%          | 5.7%          | 2.9%                  |
| Public Bank   | 7,283         | 7,901         | 8,579         | 8,658         | 9,211         |                       |
| Growth        | 0.2%          | 8.5%          | 8.6%          | 0.9%          | 6.4%          | 3.6%                  |
| RHB           | 3,670         | 4,192         | 4,477         | 4,470         | 4,690         |                       |
| Growth        | 6.4%          | 14.2%         | 6.8%          | -0.1%         | 4.9%          | 2.4%                  |
| <b>Total</b>  | <b>38,453</b> | <b>41,721</b> | <b>43,842</b> | <b>44,827</b> | <b>47,439</b> |                       |
| <b>Growth</b> | <b>5.7%</b>   | <b>8.5%</b>   | <b>5.1%</b>   | <b>2.2%</b>   | <b>5.8%</b>   | <b>4.0%</b>           |

Source: Banks, Consensus estimates for Maybank, Maybank IBG Research

## Cukai Makmur impact in 2022, 18% earnings growth in 2023

*Cukai Makmur* (Prosperity Tax) calls for a one-time tax of 33% (against a normal corporate tax rate of 24%) on chargeable income above MYR100m. We have already factored *Cukai Makmur* into our earnings, which is we expect cumulative core net profit for our banks to come in flat (+1.4%) in 2022 despite lower credit cost assumptions. On the back of the 6% expansion in operating profit and lower credit costs, we expect cumulative core net profit to rebound 18% YoY in 2023.

**Fig 42: Recurring net profit (calendarized)**

|                      | 2019          | 2020           | 2021          | 2022E         | 2023E         | 3-yr CAGR   |
|----------------------|---------------|----------------|---------------|---------------|---------------|-------------|
| ABMB                 | 453           | 375            | 519           | 627           | 692           |             |
| <i>Growth</i>        | (15.7%)       | (17.1%)        | 38.4%         | 20.7%         | 10.3%         | 15.4%       |
| AMMB                 | 1,324         | 1,095          | 1,186         | 1,356         | 1,462         |             |
| <i>Growth</i>        | 5.4%          | (17.3%)        | 8.3%          | 14.3%         | 7.8%          | 11.0%       |
| BIMB                 | 628           | 669            | 561           | 481           | 599           |             |
| <i>Growth</i>        | 5.7%          | 6.5%           | (16.1%)       | (14.2%)       | 24.6%         | 3.4%        |
| CIMB                 | 4,762         | 1,430          | 4,648         | 5,278         | 6,271         |             |
| <i>Growth</i>        | 6.0%          | (70.0%)        | 225.1%        | 13.6%         | 18.8%         | 16.2%       |
| HL Bank              | 2,588         | 2,732          | 3,015         | 3,429         | 3,774         |             |
| <i>Growth</i>        | 0.1%          | 5.5%           | 10.4%         | 13.8%         | 10.1%         | 11.9%       |
| Maybank              | 8,198         | 6,720          | 8,201         | 7,820         | 9,350         |             |
| <i>Growth</i>        | 1.0%          | (18.0%)        | 22.0%         | (4.7%)        | 19.6%         | 6.8%        |
| Public Bank          | 5,512         | 5,250          | 5,657         | 5,532         | 6,659         |             |
| <i>OGrowth</i>       | (1.4%)        | (4.7%)         | 7.7%          | (2.2%)        | 20.4%         | 8.5%        |
| RHB                  | 2,527         | 2,316          | 2,805         | 2,452         | 2,919         |             |
| <i>Growth</i>        | 9.6%          | (8.4%)         | 21.1%         | (12.6%)       | 19.1%         | 2.0%        |
| <b>Total</b>         | <b>25,991</b> | <b>20,586</b>  | <b>26,591</b> | <b>26,974</b> | <b>31,727</b> |             |
| <b><i>Growth</i></b> | <b>2.0%</b>   | <b>(20.8%)</b> | <b>29.2%</b>  | <b>1.4%</b>   | <b>17.6%</b>  | <b>9.2%</b> |

Source: Banks, Consensus estimates for Maybank, Maybank IBG Research

## ROAEs to improve in 2023

Our ROAE forecasts for FY22 are broadly at the lower end of management's guidance for most banks. Of particular note, however, is that CIMB outperformed in 1Q21, which resulted in a 10-18% upgrade in our FY22-24E net profit forecasts. While management has yet to revise its ROE guidance, we do expect the group to outperform management's expectations, thus our higher ROE assumptions relative to guidance.

We expect the average ROAE for our banks to decline to 9.4% in 2022 from 9.7% in 2021, largely because of *Cukai Makmur*, before rebounding to 10.5% in 2023, taking the aggregate ROAE ratio back to pre-COVID levels.

**Fig 43: MIBG's ROE estimates versus banks' guidance**

|           | FY21A  | FY22E mgt guidance | FY22E | FY23E |
|-----------|--------|--------------------|-------|-------|
| ABMB *    | 5.9%   | >10%               | 9.7%  | 9.9%  |
| AMMB *    | -23.0% | 9.3%-10%           | 8.0%  | 8.0%  |
| BIMB      | 8.4%   | NA                 | 7.2%  | 8.3%  |
| CIMB      | 7.5%   | 7.5-8%             | 8.7%  | 9.8%  |
| HL Bank @ | 10.1%  | >10.5%             | 10.4% | 11.3% |
| Maybank   | 9.5%   | 9.5-10%            | NA    | NA    |
| Public Bk | 11.9%  | 11-12%             | 11.2% | 12.7% |
| RHB       | 9.5%   | 8.5%               | 8.6%  | 9.8%  |

Source: Banks, Maybank IBG Research

^ FYE3/21A - FY3/23E @ FYE6/21A-FYE6/23E

**Fig 44: ROAE forecasts (calendarized)**

|                | 2019         | 2020        | 2021        | 2022F       | 2023F        |
|----------------|--------------|-------------|-------------|-------------|--------------|
| ABMB           | 7.8%         | 6.2%        | 8.2%        | 9.5%        | 9.9%         |
| AMMB           | 7.7%         | (15.4%)     | 1.4%        | 8.4%        | 8.0%         |
| BIMB           | 11.4%        | 9.4%        | 8.4%        | 7.2%        | 8.3%         |
| CIMB           | 8.5%         | 2.1%        | 7.5%        | 8.7%        | 9.8%         |
| HL Bank        | 10.1%        | 9.8%        | 10.2%       | 10.8%       | 11.2%        |
| Maybank        | 10.4%        | 7.8%        | 9.5%        | NA          | NA           |
| Public Bk      | 13.0%        | 10.7%       | 11.9%       | 11.2%       | 12.7%        |
| RHB            | 10.1%        | 7.7%        | 9.5%        | 8.6%        | 9.8%         |
| <b>Average</b> | <b>10.2%</b> | <b>7.6%</b> | <b>9.7%</b> | <b>9.4%</b> | <b>10.5%</b> |

Source: Banks, Consensus for Maybank, Maybank IBG Research

**Fig 45: ROAA forecasts (calendarized)**

|                | 2019        | 2020        | 2021        | 2022F       | 2023F       |
|----------------|-------------|-------------|-------------|-------------|-------------|
| ABMB           | 0.8%        | 0.6%        | 0.8%        | 1.0%        | 1.1%        |
| AMMB           | 0.9%        | (1.5%)      | 0.1%        | 0.8%        | 0.8%        |
| BIMB           | 1.0%        | 0.8%        | 0.7%        | 0.6%        | 0.7%        |
| CIMB           | 0.8%        | 0.2%        | 0.7%        | 0.8%        | 0.9%        |
| HL Bank        | 1.2%        | 1.2%        | 1.3%        | 1.4%        | 1.4%        |
| Maybank        | 1.0%        | 0.8%        | 0.9%        | NA          | NA          |
| Public Bk      | 1.3%        | 1.1%        | 1.2%        | 1.2%        | 1.3%        |
| RHB            | 1.0%        | 0.8%        | 0.9%        | 0.8%        | 0.9%        |
| <b>Average</b> | <b>1.0%</b> | <b>0.8%</b> | <b>1.0%</b> | <b>0.9%</b> | <b>1.1%</b> |

Source: Banks, Consensus for Maybank, Maybank IBG Research



## Dividend payouts normalizing

Against relatively suppressed dividend payouts in FY20 and FY21 as banks took a more prudent stance towards conserving/preserving capital, dividend payout ratios are normalizing and there is room for upside surprise against our forecasts if they return to pre-COVID levels in FY22.

RHB surprised with a hefty dividend payout of 62.9% in FY21, but we have conservatively assumed that it normalizes back to its FY19 level of 50%, in FY22/23E. With the highest CET1 ratio among peers, RHB's dividend payout ratio still has room to surprise positively.

ABMB surprised with a payout ratio of 50% in FYE3/22 and we have raised its FY23E payout ratio to 50% from 40% previously. AMMB recommenced its dividend payment with a payout ratio of 11% in FY22. This was lower than our expectation of 20% but we nevertheless maintain a 30% payout ratio in FY23E, on the back of an improved capital position.

**Fig 46: Payout ratios**

|      | FY19  | FY20  | FY21  | FY22E | FY23E |
|------|-------|-------|-------|-------|-------|
| ABMB | 48.1% | 21.9% | 25.0% | 50%   | 50%   |
| AMMB | 40.0% | 29.9% | 0.0%  | 11%   | 30.0% |
| BIMB | 49.8% | 49.8% | 42.5% | 45.0% | 45.0% |
| CIMB | 51.9% | 40.0% | 54.2% | 50.0% | 50.0% |
| HLBK | 38.4% | 29.5% | 35.8% | 38.0% | 38.0% |
| MAY  | 87.8% | 91.2% | 84.5% | NA    | NA    |
| PBK  | 51.4% | 51.8% | 52.2% | 53.5% | 52.0% |
| RHB  | 50.1% | 34.8% | 62.9% | 50.0% | 50.0% |

Source: Banks, Consensus for Maybank, Maybank IBG Research

**Fig 47: DPS and dividend yields**

|      | Sh price<br>(MYR) | DPS<br>FY22E | DPS<br>FY23E | Yield<br>FY22E | Yield<br>FY23E |
|------|-------------------|--------------|--------------|----------------|----------------|
| ABMB | 4.30              | 18.5         | 20.8         | 4.3%           | 4.8%           |
| AMMB | 4.37              | 5.0          | 13.9         | 1.1%           | 3.2%           |
| BIMB | 3.00              | 9.8          | 11.8         | 3.3%           | 3.9%           |
| CIMB | 5.70              | 25.0         | 29.0         | 4.4%           | 5.1%           |
| HLBK | 24.70             | 58.0         | 68.0         | 2.3%           | 2.8%           |
| MAY  | 8.93              | 56.0         | 65.0         | 6.3%           | 7.3%           |
| PBK  | 4.80              | 15.2         | 18.0         | 3.2%           | 3.8%           |
| RHB  | 7.10              | 30.6         | 36.2         | 4.3%           | 5.1%           |

Source: Banks, Consensus for Maybank, Maybank IBG Research

## Risk statement

**Upside risks:** (i) Stronger-than-expected GDP growth, which would contribute to stronger loan growth and lower credit risks; as well as (ii) improved liquidity, which would help to sustain interest margins.

**Downside risks:** (i) Weaker-than-expected GDP growth, which could lead to slower loan growth and asset-quality issues; (ii) marked-to-market investment losses if bond yields rise; and (iii) a slowdown in CASA growth, which could exacerbate deposit competition.

Present downside risks include a) inflationary pressure and its negative impact on consumption and spending power, b) global instability amid a Russia-Ukraine war, c) further defaults in corporate debt and d) a higher-than-expected default rate on RA loans.

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